

MILAN PUBLIC LIBRARY
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005
WITH
INDEPENDENT AUDITORS' REPORT

MILAN PUBLIC LIBRARY
INDEPENDENT AUDITORS' REPORT
TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
Management's Discussion and Analysis	i – vi
Independent Auditors' Report	1 – 2
Basic Financial Statements:	
<i>Government-Wide Financial Statements</i>	
Statements of Net Assets	3
Statement of Activities	4
<i>Fund Financial Statements:</i>	
Balance Sheet – Governmental Funds	5
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	6
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of the Governmental Funds to the Statement of Activities	7
Notes to Financial Statements	8 – 16
Required Supplementary Information:	
Independent Auditors' Report on Required Supplementary Information	17
Budgetary Comparison Schedule – General Fund	18
Other Additional Information:	
Independent Auditors' Report on Additional Information	19
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20 – 21
Combining Balance Sheet – Nonmajor Governmental Fund Type	22
Combining Statement of Revenues, Expenditures and Change in Fund Balance – Nonmajor Governmental Fund Type	23
Combining Balance Sheet – Permanent Fund	24
Combining Statement of Revenues, Expenses and Changes in Fund Balances – Permanent Fund	25

Milan Public Library

Management's Discussion and Analysis

The Milan Public Library (the "Library"), located in the City of Milan in Monroe County, Michigan is in its second year of implementing the requirements of Governmental Accounting Standards Board Statement No. 34 (GASB 34) in its annual audit report. This section presents management's discussion and analysis of the Library's financial performance during the fiscal year ended June 30, 2005 and is intended to serve as an introduction to the Library's basic financial statements. The Library is an independent taxing authority and receives 1.5 mils from the residents of the City of Milan for its operations. This millage rate is subject to Headlee rollback and was assessed at 1.4386. Assets for the Milan Public Library for the fiscal year ending in June 2005 include the General Fund, the Endowment Account with four sub groups, and a Library Planning and Construction Fund.

Overview of Financial Statements

The Library's basic financial statements consist of three basic components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes supplementary information, required by GASB 34.

Government-wide Financial Statements

The *government-wide* financial statements provide readers information about the Library's finances as a whole, using accounting methods similar to a private-sector business. The two government-wide statements are the Statement of Net Assets and the Statement of Activities.

The *statement of net assets* presents all of the Library's assets and liabilities, the difference between the two being reported as net assets. Capital assets and long-term debt are included as assets and liabilities, respectively, in this statement, which were previously reported in separate account groups. Increases or decreases in the Library's net assets are an indicator of whether its financial position is improving or deteriorating.

The *statement of activities* reports the current year's revenues and expenses, regardless of when cash is received or paid. The governmental activities of the Library include providing a diverse collection of books, periodicals, audio visual materials and online resources to meet informational, educational, cultural, remedial needs of the community with a special role in the community of collecting and preserving local historical and genealogical materials.

Governmental Fund Financial Statements

The *fund financial statements* focus on the individual parts of the Library. The fund financial statements provide more detailed information than the government-wide statements and focus on the Library's major funds not the Library as a whole. The Library's operational activities are reported in the General Fund.

The focus of the governmental funds is on near-term inflows and outflows of spendable resources, as well as the balances of spendable resources available at the end of the fiscal year. The information should be useful in evaluating the Library's near-term financing requirements. The General Fund and the Permanent Fund are considered to be major funds for the Library. The Permanent Fund is used to account for resources legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the Library's programs. The General Fund accounts for all other resources that do not have a specific purpose. All other governmental funds are considered to be non-major funds, as presented in the Combining Balance Sheet of Non-major Governmental Funds. For the fiscal year ending June 30, 2005, the Library had one Non-major Governmental Fund, the Capital Projects Fund.

The *Notes to the Financial Statements* provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

The statements are followed by *required supplementary information* that further explains and supports the financial statements and include a comparison with the Library's budget for the year.

Financial Analysis

Overall Financial Analysis

The Library had net assets of \$1,256,400 as of June 30, 2005, which is decreased \$109,839 from the previous year. Major reasons for the decrease included another cut in state aid to libraries, as well as a continued decrease in local donations from York Twp). As with all other businesses of any type, the library was hit hard by the low interest rates on investments, both for the General Fund and the Endowment Funds' the interest of which is used to supplement purchases for the library, although interest rates are rising. A major reason for the decrease is the rising cost of health insurance as well as the rise in costs of materials, and the cost of liability insurance.

The government-wide Statement of Net Assets and Statement of Activities are summarized in Tables 1 and 2, respectively.

Table 1.

	Governmental Activities	
	2005	2004
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$100,079	308,303
Investments	\$190,597	
Due from other governmental units	6,719	500
Total current assets	297,395	308,803
NONCURRENT ASSETS:		
Capital assets	1,348,654	1,348,654
Less: Accumulated depreciation	(370,547)	(285,875)
Total non current assets	978,107	1,062,779
Total assets	\$1,275,502	\$1,371,582
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$5,744	2,490
Salaries payable	9,059	2,550
Accrued expenses	4,299	303
Total liabilities	19,102	5,343
NET ASSETS:		
Invested in capital assets net of related debt	978,107	1,062,779
Restricted for capital projects	5,102	25,182
Restricted for nonexpendable endowments	25,000	25,000
Restricted for expendable endowments	188,131	173,555
Unrestricted	60,060	79,723
Total net assets	1,256,400	1,366,239

Table 2.

Program revenues:	
Charges for services:	
Membership dues	600
Charges for services	2,653
Operating grants:	
Donations	<u>15,973</u>
Total program revenues	19,226
General revenues:	
Property taxes received from the City of Milan	273,074
Investment earnings	4,115
State sources-unrestricted	13,455
Penal fines from Monroe and Washtenaw Counties	46,147
Other	<u>3,586</u>
Total general revenues	<u>340,377</u>
Total revenues	359,603
Expenses:	
Library	371,220
Unallocated depreciation	<u>84,672</u>
Total expenses	<u>455,892</u>
Change in net assets	(96,289)
Reduction of net assets (Note 9)	<u>(13,550)</u>
Total decrease in net assets	<u><u>(109,839)</u></u>

Analysis of Individual Funds

The General Fund fund balance decreased \$19,663 as a result of decreased state aid and local donations coupled with increased costs of operations. All state aid funds budgeted for this fiscal year were not received until July 2005.

The permanent funds include endowment assets in four separate accounts, Mohr/Walls, Sheehan, Phillips and Enrichment that total \$213,131. There is further detail in the combining financial statements that follow the required supplementary information.

The Capital Projects fund balance totaled \$5,102 at the end of the fiscal year, a decrease of \$20,080 due to expenses incurred by the hiring of an Architectural Firm. The purpose of the capital projects fund is to begin building a fund for the expansion of the current library, or the building of an additional facility. This project has been temporarily put on hold while an increase in operating millage is attempted in the coming year. An operating millage for and additional .5 mils was defeated in February of 2005 by four (4) votes. Another attempt will be made in November 2005.

General Fund Budgetary Highlights

The original budget was changed to account for the increase in penal fines and the receipt of state aid funds from the previous year, despite smaller than expected donations from the townships and much lower interest than expected. The local revenue exceeded the budget by \$19,138.

General operating revenue totaled \$341,806 with the final amount budgeted for the fiscal year of \$322,213.

All expenses for the total year, including salaries and wages, purchased services, supplies and materials, capital outlay, miscellaneous and other uses and transactions totaled \$362,970 versus a budget of \$418,105.

Capital Asset and Long-term Debt Activity

Capital Assets

There were no additions or disposals of capital assets for the fiscal year ended June 30, 2005.

Long-term Debt Activity

The library board has been looking throughout fiscal FYE 2004 and beyond into a bond issue for library expansion. As this point, due to a variety of problems with the City of Milan, the plan has been put on hold while the possibility of establishing a Library district and the millage increase are explored. As of this time, there is no significant debt activity, nor are there any changes in credit ratings or debt limitations as the library as a unit is legally unable to bond.

Factors bearing on the Library's Future

It has become apparent over the last several years that the 1.5 mils paid by the residents of the City of Milan is not generating enough income to keep up with the rise in costs of

materials, and especially the costs of liability and health insurance. Although the library staff has been able to keep well within the total budget, these costs have required the use of monies from the fund balance, causing the contingency account to be reduced. After a defeat in February 2005 of a ballot request for an increase of .5 mils for operating expenses, the board will try for an increase of .25 mils in the November 2005 election.

The library has laid off the youth assistant previously employed at 25 hours per week and has cut the hours of the full-time reference librarian to 27 hours per week in order to save on the costs of health insurance.

The library board continues to look at the possibility of forming a Library district in order to equalize the amounts paid by all those residents and contract areas receiving full services from the library. A meeting was held with representatives of the Tecumseh District Library who launched a successful district library and passed a corresponding millage for such.

The townships of York, Augusta and Pittsfield will also be approached F.Y.E. 2006 about new contracts for library services that will include more than penal fines and the decreased state aid currently under contract. The Monroe County Library System will once again be consulted about a contribution equal to that of the other townships.

To the Board of Directors
Milan Public Library
Milan, Michigan

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Milan Public Library, as of and for the year ended June 30, 2005, which comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Milan Public Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Milan Public Library, as of June 30, 2005, and the changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2005 on our consideration of the Milan Public Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

To the Board of Directors
Milan Public Library
Milan, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Milan Public Library's basic financial statements. The introductory section, combining permanent fund and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining permanent fund and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
October 4, 2005

MILAN PUBLIC LIBRARY
STATEMENTS OF NET ASSETS

June 30, 2005 and 2004

	<u>ASSETS</u>	<u>Governmental Activities</u>	
		<u>2005</u>	<u>2004</u>
Current assets:			
Cash and cash equivalents		\$ 100,079	\$ 308,303
Investments		190,597	
Due from other governmental units		<u>6,719</u>	<u>500</u>
Total current assets		<u>297,395</u>	<u>308,803</u>
Noncurrent assets:			
Capital assets		1,348,654	1,348,654
Less: Accumulated depreciation		<u>(370,547)</u>	<u>(285,875)</u>
Total noncurrent assets		<u>978,107</u>	<u>1,062,779</u>
Total assets		<u>\$ 1,275,502</u>	<u>\$ 1,371,582</u>
 <u>LIABILITIES AND NET ASSETS</u>			
Current liabilities:			
Accounts payable		\$ 5,744	\$ 2,490
Salaries payable		9,059	2,550
Accrued expenses		<u>4,299</u>	<u>303</u>
Total current liabilities		<u>19,102</u>	<u>5,343</u>
Net assets:			
Invested in capital assets net of related debt		978,107	1,062,779
Restricted for:			
Capital projects		5,102	25,182
Nonexpendable endowments		25,000	25,000
Expendable endowments		188,131	173,555
Unrestricted		<u>60,060</u>	<u>79,723</u>
Total net assets		<u>\$ 1,256,400</u>	<u>\$ 1,366,239</u>

The notes to the financial statements are an integral part of this statement.

MILAN PUBLIC LIBRARY

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2005
With Comparative Totals for the Year Ended June 30, 2004

FUNCTIONS/PROGRAMS	<u>Expenses</u>	<u>Program Revenues</u>		<u>Totals Governmental Activities</u>	
		<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Net (Expense) Revenue and Changes in Net Assets 2005</u>	<u>2004</u>
Governmental activities:					
Library	\$ 371,220	\$ 3,253	\$ 15,973	\$ (351,994)	\$ (346,219)
Unallocated depreciation	<u>84,672</u>			<u>(84,672)</u>	<u>(84,672)</u>
Total governmental activities	<u>455,892</u>	<u>3,253</u>	<u>15,973</u>	<u>(436,666)</u>	<u>(430,891)</u>
General revenues:					
Property taxes, levied for general purposes				273,074	266,024
Investment earnings				4,115	1,745
State sources – unrestricted				13,455	13,455
Fines				46,147	42,946
Other				<u>3,586</u>	<u>11,053</u>
Total general revenues				<u>340,377</u>	<u>335,223</u>
Change in net assets				(96,289)	(95,668)
Reduction of net assets				(13,550)	
Net assets, beginning of year				<u>1,366,239</u>	<u>1,461,907</u>
Net assets, end of year				<u>\$ 1,256,400</u>	<u>\$ 1,366,239</u>

The notes to the financial statements are an integral part of this statement.

MILAN PUBLIC LIBRARY

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2005

With Comparative Totals for June 30, 2004

<u>ASSETS</u>	<u>General Fund</u>	<u>Permanent Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Totals Governmental Funds</u>	
				<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$ 72,443	\$ 22,534	\$ 5,102	\$ 100,079	\$ 308,303
Investments		190,597		190,597	
Due from other governmental units	<u>6,719</u>	<u> </u>	<u> </u>	<u>6,719</u>	<u>500</u>
Total assets	<u>\$ 79,162</u>	<u>\$ 213,131</u>	<u>\$ 5,102</u>	<u>\$ 297,395</u>	<u>\$ 308,803</u>
 <u>LIABILITIES</u>					
Accounts payable	\$ 5,744	\$	\$	\$ 5,744	\$ 2,490
Salaries payable	9,059			9,059	2,550
Accrued expenditures	<u>4,299</u>	<u> </u>	<u> </u>	<u>4,299</u>	<u>303</u>
Total liabilities	<u>19,102</u>	<u>-</u>	<u>-</u>	<u>19,102</u>	<u>5,343</u>
 <u>FUND BALANCES</u>					
Reserved for:					
Capital projects			5,102	5,102	25,182
Nonexpendable endowments		25,000		25,000	25,000
Expendable endowments		188,131		188,131	173,555
Unreserved, reported in:					
General Fund	<u>60,060</u>	<u> </u>	<u> </u>	<u>60,060</u>	<u>79,723</u>
Total fund balances	<u>60,060</u>	<u>213,131</u>	<u>5,102</u>	<u>278,293</u>	<u>303,460</u>
Total liabilities and fund balances	<u>\$ 79,162</u>	<u>\$ 213,131</u>	<u>\$ 5,102</u>	<u>\$ 297,395</u>	<u>\$ 308,803</u>

	2005		2004	
Total government fund balances	\$	\$ 278,293	\$	\$ 303,460
Amounts reported for governmental activities in the Statement of Net Assets are different because:				
Capital assets used in the governmental activities are not financial resources and are not reported in the funds.				
The cost of the capital asset is		1,348,654		1,348,654
The accumulated depreciation is		<u>(370,547)</u>		<u>(285,875)</u>
		<u>978,107</u>		<u>1,062,779</u>
Net assets of governmental activities		<u>\$ 1,256,400</u>		<u>\$ 1,366,239</u>

The notes to the financial statements are an integral part of this statement.

MILAN PUBLIC LIBRARY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

**For the Year Ended June 30, 2005
With Comparative Totals for the Year Ended June 30, 2004**

	<u>General Fund</u>	<u>Permanent Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Totals Governmental Funds 2005</u>	<u>2004</u>
Revenues:					
Local sources:					
Property taxes	\$ 273,074	\$	\$	\$ 273,074	\$ 266,024
Membership dues -- nonresidents	600			600	2
Library fines	6,602			6,602	5,195
Penal fines	39,545			39,545	37,751
Investment earnings	388	3,727		4,115	1,745
Charges for services	2,653			2,653	1,769
Donations	3,623	12,350		15,973	12,078
Other	<u>1,866</u>		<u>1,720</u>	<u>3,586</u>	<u>11,053</u>
Total local sources	328,351	16,077	1,720	346,148	335,617
State sources:					
State aid -- direct	6,739			6,739	6,727
State aid -- indirect	6,716			6,716	6,728
Federal sources					<u>1,500</u>
Total revenues	<u>341,806</u>	<u>16,077</u>	<u>1,720</u>	<u>359,603</u>	<u>350,572</u>
Expenditures:					
Current:					
Salaries and benefits	231,438			231,438	234,416
Purchased services	66,697			66,697	68,851
Supplies and materials	48,219			48,219	56,643
Miscellaneous	<u>3,066</u>		<u>21,800</u>	<u>24,866</u>	<u>1,658</u>
Total expenditures	<u>349,420</u>	<u>-</u>	<u>21,800</u>	<u>371,220</u>	<u>361,568</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(7,614)</u>	<u>16,077</u>	<u>(20,080)</u>	<u>(11,617)</u>	<u>(10,996)</u>
Other financing sources (uses):					
Transfers in	1,501			1,501	1,824
Transfers out		(1,501)		(1,501)	(1,824)
Repayment of prior year taxes	<u>(13,550)</u>			<u>(13,550)</u>	
Total other financing sources (uses)	<u>(12,049)</u>	<u>(1,501)</u>	<u>-</u>	<u>(13,550)</u>	<u>-</u>
Net changes in fund balances	(19,663)	14,576	(20,080)	(25,167)	(10,996)
Fund balances:					
Beginning of year	<u>79,723</u>	<u>198,555</u>	<u>25,182</u>	<u>303,460</u>	<u>314,456</u>
End of year	<u>\$ 60,060</u>	<u>\$ 213,131</u>	<u>\$ 5,102</u>	<u>\$ 278,293</u>	<u>\$ 303,460</u>

The notes to the financial statements are an integral part of this statement.

MILAN PUBLIC LIBRARY

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Net change in fund balances total governmental funds	\$ (25,167)	\$ (10,996)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures in the Statement of Revenues, Expenditures, and Changes Fund Balances. These costs are allocated over their estimated useful lives as depreciation on the Statement of Activities:		
Depreciation expense	(84,672)	(84,672)
Revenue and expenditures related to prior periods are recognized in the governmental funds, but must be eliminated in the Statement of Activities.		
Expenditures related to prior periods	<u>13,550</u>	<u> </u>
Change in net assets of governmental activities	<u>\$ (96,289)</u>	<u>\$ (95,668)</u>

MILAN PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Milan Public Library (the "Library") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Library's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Library has implemented the provisions of Statement No. 34 effective July 1, 2003.

A. Reporting Entity

The Milan Public Library is governed by an elected six member Board. As required by accounting principles generally accepted in the United States of America, these financial statements present the Milan Public Library as the primary government. There are no component units as of June 30, 2005.

B. Government-Wide And Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Library. The government-wide financial statements categorize primary activities as either governmental or business-type. All of the Library's activities are classified as governmental activities. Amounts reported in the funds as interfund receivables and payables are eliminated in the governmental activities column of the statement of net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Property taxes, direct and indirect State sources, penal fines, and other unrestricted items are not included as program revenues but instead as *general revenues*.

MILAN PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide And Fund Financial Statements (Continued)

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Library first utilizes restricted resources to finance qualifying activities.

This government-wide statement of activities reports both the gross and net cost of each of the Library's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, and fines, etc.). The statement of activities reduces gross expenses by related program revenues.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, penal fines, interest income, and other revenues).

The Library does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Library as an entity and the change in the Library's net assets resulting from the current year's activities.

GOVERNMENTAL FUND TYPES

Major Funds:

General Fund – The operations of the General Fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Government resources are allocated to and accounted for in the General Fund based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Permanent Fund – A Permanent Fund is used to report resources legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the Library's programs.

Nonmajor Fund:

Capital Project Fund – A Capital Project Fund is used to account for the acquisition or construction of fixed assets.

MILAN PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis Of Accounting And Basis Of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and state aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

D. Other Accounting Policies

1. Cash and Investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes and the investment policy adopted by the governing board authorize the Library to invest in obligations of the U.S. Treasury, certificates of deposit, savings and deposit accounts, commercial paper, U.S. Repurchase Agreements, and the State Treasurer's Investment Pool.

Cash consists of savings, deposit, and money market accounts and are valued at cost.

The cash reported in the Permanent Fund is restricted by donor stipulations.

MILAN PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

2. Capital Assets

The Library has a capitalization policy of \$2,000. Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. The Library estimates the useful life of assets as follows:

Building	50	years
Equipment and furniture	5 - 15	years
Library books	10	years

3. Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

4. Fund Balances

Fund balances on the Governmental fund balance sheet are classified as either reserved or unreserved. The term reserved indicates that a portion of the fund balance is not appropriable for expenditure or is legally segregated for a specific future use. The reserve for Capital Projects is the portion of fund balance legally segregated for expenditure within the Capital Projects Fund. The reserve for Nonexpendable Endowments is the amount of principal that is required to remain in tact according to a donor's stipulation. The reserve for Expendable Endowments is the amount restricted for a particular use as stipulated by donors.

NOTE 2. BUDGETS AND BUDGETARY ACCOUNTING

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit of government shall not incur expenditures in excess of the amount appropriated.

The Library's actual and budgeted expenditures for the General Fund have been shown by object. The approved budget of the Library for the General Fund was adopted by object on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). All encumbrances and unexpended budget categories lapse at end of year. The Permanent Fund is not legally required to adopt a budget.

The General Fund did not incur expenditures in excess of budget. Expenditures were not incurred in excess of the amount appropriated.

MILAN PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 3. CASH

Custodial Credit Risk Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. As of June 30, 2005, \$194,024 of the Library's bank balance of \$294,024 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized \$ 194,024

Investments

The amounts categorized as investments on the face of the financial statements are savings accounts held for long term purposes. These investments are not subject to investment disclosure as required by GASB Statement No. 40, instead they are included with the deposit footnote above.

NOTE 4. CAPITAL ASSETS

A summary of changes in the Library's capital assets follows:

	<u>Primary Government</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental activities:				
Assets not being depreciated – land	\$ 49,200	\$	\$	\$ 49,200
Total assets not being depreciated	<u>49,200</u>	<u>-</u>	<u>-</u>	<u>49,200</u>
Building	569,725			569,725
Equipment and furniture	31,183			31,183
Library books	<u>698,546</u>			<u>698,546</u>
Depreciable capital assets	<u>1,299,454</u>	<u>-</u>	<u>-</u>	<u>1,299,454</u>
Less accumulated depreciation for:				
Building	125,340	11,394		136,734
Equipment and furniture	20,826	3,423		24,249
Library books	<u>139,709</u>	<u>69,855</u>		<u>209,564</u>
Total accumulated depreciation	<u>285,875</u>	<u>84,672</u>	<u>-</u>	<u>370,547</u>
Governmental activities capital assets, net	<u>\$ 1,062,779</u>	<u>\$ (84,672)</u>	<u>\$ -</u>	<u>\$ 978,107</u>

Capital assets are depreciated over their estimated useful lives using the straight line method of depreciation for all classes of depreciable assets. Depreciation for the fiscal year ended June 30, 2005 amounted to \$84,672. The Library determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

MILAN PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 5. RETIREMENT PLAN

PLAN DESCRIPTION

The Library contributes to the Michigan Municipal Employees' Retirement System (MERS), an agent multi-employer defined benefit pension plan, which provides retirement benefits to all full-time employees of the Library. MERS is administered by its Board of Trustees. The actuary for the System is Gabriel, Roeder, Smith & Company. The Municipal Employees' Retirement Act of 1984, as amended by 1996 Public Act 220 of the State of Michigan, assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; for the Milan Public Library, that authority rests with the Library's Board. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917.

Benefits vest after 6 years of credited service. Library employees who retire at or after age 60 with 10 or more years of service, or age 55 with 15 or more years of credited service (reduced benefit unless Benefit F55 is in effect), or age 50 with 25 or more years of credited service (reduced benefit unless Benefit F50 is in effect) are entitled to a retirement allowance equal to credited service multiplied by 1.7% of the final average compensation (FAC). The system also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute.

FUNDING POLICY

Employees are not required to make contributions under the plan. The Library is required to contribute the actuarially determined amount each year.

ANNUAL PENSION COST

For the year ended June 30, 2005, the Library's pension contribution was \$17,533 based on wages of \$171,984. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age normal cost method. The actuarial assumptions included -

- [a] 8.0% investment rate of return,
- [b] projected salary increases of 4.5% per year compounded annually,
- [c] the assumption that benefits will increase between 1.0% to 2.5% per year (annually) after retirement.

The actuarial value of MERS' assets was determined using techniques that smooth the effects of short term volatility in the market value of investments over a five year period.

Currently, there is an unfunded actuarial accrued liability of \$84,308. The unfunded actuarial accrued liability is being amortized by a level percent of payroll over a period of 30 years.

MILAN PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 5. RETIREMENT PLAN (Continued)

Actuarial Accrued Liability (as of 12/31/04)

Retirees and beneficiaries currently receiving benefits	\$ 156,845
Terminated employees not yet receiving benefits	
Current employees --	
Accumulated employee contributions including allocated investment income	
Employer financed	<u>116,212</u>
Total Actuarial Accrued Liability	273,057
Net Assets Available for Benefits at Actuarial Value	<u>188,749</u>
(Market Value is \$181,242)	
Unfunded (Overfunded) Actuarial Accrued Liability	<u>\$ 84,308</u>

THREE YEAR TREND INFORMATION

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/03	\$ 13,742	100%	\$ 0.00
6/30/04	14,501	100%	0.00
6/30/05	17,533	100%	0.00

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets [a]</u>	<u>Actuarial Accrued Liability (AAL) Entry Age [b]</u>	<u>Unfunded AAL (UAAL) [b-a]</u>	<u>Funded Ratio [a/b]</u>	<u>Covered Payroll [c]</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/00	\$ 155,619	\$ 207,936	\$ 52,317	75%	\$ 99,131	53%
12/31/01	162,785	213,966	51,181	76	87,224	59
12/31/02	164,029	228,120	64,091	72	114,515	56
12/31/03	176,491	265,633	89,142	66	143,248	62
12/31/04	188,749	273,057	84,308	69	134,643	63

MILAN PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 6. INTERFUND TRANSFERS

The interfund transfers between the Permanent Fund and the General Fund represent the amount of interest earned by the endowments that is released from restriction and, therefore, available for use by the General Fund. A schedule of interfund transfers follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
General	\$ 1,501	General	\$
Permanent		Permanent	1,501
	<u>\$ 1,501</u>		<u>\$ 1,501</u>

NOTE 7. MILLARD F. AND MARIE A. PHILLIPS UNITRUST AGREEMENT

On May 3, 1996, Millard F. and Marie A. Phillips created a charitable remainder unitrust, whereas upon the death of the last of the Grantors, the Trustee shall distribute the trust principal as then constituted and any accrued and undistributed income thereof, other than any amount due the last surviving Grantor, to the Milan Public Library of Milan, Michigan, or any successor public library of the Milan Public Library. The income from the trust estate shall be used for new program development, enhancement, or upgrading of old programs, enhancement and expansion of materials in the genealogy collection, resource materials and electronic equipment for use by the general public. It is intended that these funds not be used for the everyday expenses of operation of the library, such as utilities, salaries, and normal book purchases, or for the cost of construction or renovation of the library building. This new trust shall be known as the Millard F. and Marie A. Phillips Milan Public Library Endowment Trust.

NOTE 8. RISK MANAGEMENT

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The Library participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The Library pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. The premiums are based on the ultimate cost of the experience to date of the participating members of the risk pool. The Library cannot estimate losses from reported and unreported claims at June 30, 2005. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency.

The Library continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2005 or any of the prior three years.

MILAN PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 9. REDUCTION OF NET ASSETS

The Michigan Tax Tribunal granted Visteon Corporation's Motion to Amend to include the 2004 tax year. As a result of this ruling, Visteon's true cash, state equalized, assessed, and taxable values were revised. In order to reflect these revisions on the assessment rolls, the tax rolls also had to be corrected. The City of Milan had to repay Visteon Corporation \$563,861 in prior year property taxes. Milan Public Library's portion of this repayment was \$13,550.

**INDEPENDENT AUDITORS' REPORT ON REQUIRED
SUPPLEMENTARY INFORMATION**

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
October 4, 2005

MILAN PUBLIC LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Local sources	\$ 314,075	\$ 309,213	\$ 328,351	\$ 19,138
State sources	<u>13,000</u>	<u>13,000</u>	<u>13,455</u>	<u>455</u>
Total revenues	<u>327,075</u>	<u>322,213</u>	<u>341,806</u>	<u>19,593</u>
Expenditures:				
Salaries and wages	247,575	247,575	231,438	16,137
Purchased services	72,201	71,101	66,697	4,404
Supplies and materials	51,666	56,216	48,219	7,997
Miscellaneous	1,400	1,400	3,066	(1,666)
Capital outlay	<u>15,500</u>	<u>2,500</u>		<u>2,500</u>
Total expenditures	<u>388,342</u>	<u>378,792</u>	<u>349,420</u>	<u>29,372</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(61,267)</u>	<u>(56,579)</u>	<u>(7,614)</u>	<u>48,965</u>
Other financing sources (uses):				
Transfers in	2,873	2,951	1,501	(1,450)
Transfers out	(28,093)	(39,313)		39,313
Repayment of property taxes			<u>(13,550)</u>	<u>(13,550)</u>
Total other financing sources (uses)	<u>(25,220)</u>	<u>(36,362)</u>	<u>(12,049)</u>	<u>24,313</u>
Net change in fund balance	(86,487)	(92,941)	(19,663)	73,278
Fund balance:				
Beginning of year			<u>79,723</u>	
End of year			<u>\$ 60,060</u>	

**INDEPENDENT AUDITORS' REPORT ON
ADDITIONAL INFORMATION**

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Milan Public Library taken as a whole. The accompanying information identified in the table of contents as combining financial statements and other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
October 4, 2005

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Milan Public Library
Milan, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Milan Public Library, as of and for the year ended June 30, 2005, which collectively comprise Milan Public Library's basic financial statements and have issued our report thereon dated October 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Milan Public Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Page 2

To the Board of Directors
Milan Public Library
Milan, Michigan

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Milan Public Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, Departments of the State of Michigan, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
October 4, 2005

MILAN PUBLIC LIBRARY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPE

June 30, 2005
 With Comparative Totals for June 30, 2004

		Total Nonmajor Governmental Fund	
		2005	2004
<u>ASSETS</u>	<u>Capital Projects</u>		
Cash and cash equivalents	\$ 5,102	\$ 5,102	\$ 25,182
Total assets	\$ 5,102	\$ 5,102	\$ 25,182
<u>FUND BALANCE</u>			
Reserved for:			
Capital Projects	\$ 5,102	\$ 5,102	\$ 25,182
Total fund balance	\$ 5,102	\$ 5,102	\$ 25,182

MILAN PUBLIC LIBRARY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE

NONMAJOR GOVERNMENTAL FUND TYPE

For the Year Ended June 30, 2005
With Comparative Totals for the Year Ended June 30, 2004

	<u>Capital Projects</u>	<u>2005</u>	Total Nonmajor Governmental <u>Fund</u>	<u>2004</u>
Revenues:				
Local sources:				
Other	\$ 1,720	\$ 1,720		\$ 5,215
Total revenues	<u>1,720</u>	<u>1,720</u>		<u>5,215</u>
Expenditures:				
Current:				
Other expenditures	<u>21,800</u>	<u>21,800</u>		<u>33</u>
Total expenditures	<u>21,800</u>	<u>21,800</u>		<u>33</u>
Net change in fund balance	(20,080)	(20,080)		5,182
Fund balance:				
Beginning of year	<u>25,182</u>	<u>25,182</u>		<u>20,000</u>
End of year	<u>\$ 5,102</u>	<u>\$ 5,102</u>		<u>\$ 25,182</u>

MILAN PUBLIC LIBRARY

PERMANENT FUND

COMBINING BALANCE SHEET

June 30, 2005

With Comparative Totals for June 30, 2004

<u>ASSETS</u>	<u>Endowment</u>	<u>General Purpose Enrichment</u>	<u>Mohr/ Wall</u>	<u>Sheehan</u>	<u>Phillips</u>	<u>Totals</u>	
						<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$ 376	\$ 9,417	\$ 5,290	\$ 2,963	\$ 4,488	\$ 22,534	\$ 198,555
Investments	<u> </u>	<u>45,865</u>	<u>53,002</u>	<u>45,865</u>	<u>45,865</u>	<u>190,597</u>	<u> </u>
Total assets	<u>\$ 376</u>	<u>\$ 55,282</u>	<u>\$ 58,292</u>	<u>\$ 48,828</u>	<u>\$ 50,353</u>	<u>\$ 213,131</u>	<u>\$ 198,555</u>
 <u>FUND BALANCES</u>							
Reserved for:							
Nonexpendable endowments	\$	\$	\$	\$ 25,000	\$	\$ 25,000	\$ 25,000
Expendable endowments	<u>376</u>	<u>55,282</u>	<u>58,292</u>	<u>23,828</u>	<u>50,353</u>	<u>188,131</u>	<u>173,555</u>
Total fund balances	<u>\$ 376</u>	<u>\$ 55,282</u>	<u>\$ 58,292</u>	<u>\$ 48,828</u>	<u>\$ 50,353</u>	<u>\$ 213,131</u>	<u>\$ 198,555</u>

MILAN PUBLIC LIBRARY

PERMANENT FUND

**COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCES**

**For the Year Ended June 30, 2005
With Comparative Totals for the Year Ended June 30, 2004**

	<u>Endowment</u>	<u>General Purpose Enrichment</u>	<u>Mohr/ Wall</u>	<u>Sheehan</u>	<u>Phillips</u>	<u>Totals 2005</u>	<u>2004</u>
Revenues:							
Contributions	\$ 1,939	\$ 4,054	\$ 3,340	\$ 1,189	\$ 1,828	\$ 12,350	\$ 10,927
Investment earnings	<u>36</u>	<u>932</u>	<u>1,014</u>	<u>859</u>	<u>886</u>	<u>3,727</u>	<u>1,451</u>
Total revenues	<u>1,975</u>	<u>4,986</u>	<u>4,354</u>	<u>2,048</u>	<u>2,714</u>	<u>16,077</u>	<u>12,378</u>
Expenses:							
Donations to General Fund		399	399	353	350	1,501	1,824
Fees and miscellaneous							<u>60</u>
Total expenses	<u>-</u>	<u>399</u>	<u>399</u>	<u>353</u>	<u>350</u>	<u>1,501</u>	<u>1,884</u>
Net change in fund balances	1,975	4,587	3,955	1,695	2,364	14,576	10,494
Fund balances:							
Beginning of year	<u>1,801</u>	<u>48,195</u>	<u>54,337</u>	<u>47,133</u>	<u>47,089</u>	<u>198,555</u>	<u>188,061</u>
End of year	<u>\$ 3,776</u>	<u>\$ 52,782</u>	<u>\$ 58,292</u>	<u>\$ 48,828</u>	<u>\$ 49,453</u>	<u>\$ 213,131</u>	<u>\$ 198,555</u>